



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
MONTGOMERY COUNTY CLERK**

Calendar Year 1998

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Edward B. Hatchett, Jr.
Auditor of Public Accounts

To the People of Kentucky

Honorable Paul E. Patton, Governor

John P. McCarty, Secretary

Finance and Administration Cabinet

Mike Haydon, Secretary, Revenue Cabinet

Honorable B. D. Wilson, Montgomery County Judge/Executive

Honorable Judy Long Witt, Montgomery County Clerk

Members of the Montgomery County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the County Clerk of Montgomery County, Kentucky, for the year ended December 31, 1998. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk is required to prepare the financial statement on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles. This cash basis system does not require the maintenance of a general fixed asset group or general long-term debt group of accounts. Accordingly, the accompanying financial statement is not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Clerk for the year ended December 31, 1998, in conformity with the basis of accounting described above.

To the People of Kentucky
Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet
Mike Haydon, Secretary, Revenue Cabinet
Honorable B. D. Wilson, Montgomery County Judge/Executive
Honorable Judy Long Witt, Montgomery County Clerk
Members of the Montgomery County Fiscal Court

Based on the results of our audit, we have presented a comment and recommendation, included herein, which discusses the following area of noncompliance:

- The County Clerk's Depository Institution Should Have Pledged Securities Of \$283,661 As Collateral To Protect Deposits

In accordance with Government Auditing Standards, we have also issued a report dated October 19, 1999, on our consideration of the County Clerk's compliance with certain laws and regulations and internal control over financial reporting.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
October 19, 1999

MONTGOMERY COUNTY
JUDY LONG WITT, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

Calendar Year 1998

Receipts

State Grant		\$	40,542
State Fees For Services			9,219
Fiscal Court			9,141
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	592,508	
Usage Tax		3,202,016	
Tangible Personal Property Tax		1,155,842	
Licenses-			
Marriage		9,349	
Describe		670	
Deed Transfer Tax		46,067	
Delinquent Tax		130,180	5,136,632
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts	\$	33,472	
Real Estate Mortgages		32,746	
Chattel Mortgages and Financing Statements		83,227	
Powers of Attorney		1,276	
All Other Recordings		7,828	
Charges for Other Services-			
Candidate Filing Fees		2,200	
Copywork		5,549	
Marginal Releases		1,188	
Postage		841	
Passports		5,450	
Notary Fees		9,347	183,124
Interest Earned			4,318
Gross Receipts (Carried Forward)		\$	5,382,976

MONTGOMERY COUNTY
 JUDY LONG WITT, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 Calendar Year 1998
 (Continued)

Gross Receipts (Brought Forward) \$ 5,382,976

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$ 419,533	
Usage Tax	3,105,626	
Tangible Personal Property Tax	429,922	

Licenses-

Delinquent Tax	561	
Legal Process Tax	26,227	
Candidate Filing Fees	1,080	
Miscellaneous	19,399	\$ 4,002,348

Payments to Fiscal Court:

Tangible Personal Property Tax	\$ 99,252	
Delinquent Tax	11,320	
Deed Transfer Tax	43,763	154,335

Payments to Other Districts:

Tangible Personal Property Tax	\$ 575,289	
Delinquent Tax	62,507	637,796

Payments to Sheriff 5,909

Payments to County Attorney 22,561

Operating Disbursements:

Personnel Services-

Deputies Salaries	\$ 243,702	
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Employee Benefits-

Employer's Share Social Security	16,796	
Employer's Share Retirement	20,399	
Employer's Paid Health Insurance	26,983	

MONTGOMERY COUNTY
 JUDY LONG WITT, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 Calendar Year 1998
 (Continued)

Disbursements (Continued)

Operating Disbursements: (Continued)

Contracted Services-

Computer Lease and Maintenance \$ 12,623

Printing and Binding 35,041

Other Charges-

Passports 4,125

Dues 3,706

Refund 545

Postage 162

Miscellaneous 352 \$ 364,434

Total Disbursements \$ 5,187,383

Net Receipts \$ 195,593

Less: Statutory Maximum (Paid Directly By County) 0

Excess Fees \$ 195,593

Less: Expense Allowance 3,600

Excess Fees Due County for Calendar Year 1998 \$ 191,993

Payments to County Treasurer-February 16, 1999 \$ 191,562

October 6, 1999 431 191,993

Balance Due at Completion of Audit \$ 0

The accompanying notes are an integral part of the financial statement.

MONTGOMERY COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 1998

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a cash basis of accounting pursuant to KRS 68.210 as recommended by the State Local Finance Officer. Revenues and related assets are generally recognized when received rather than when earned. Certain expenses are recognized when paid rather than when a liability is incurred, including capital asset purchases. Certain other expenses are recognized when a revenue and the related asset can be associated with a corresponding liability due another governmental entity.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.65 percent.

MONTGOMERY COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 1998
 (Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The County Clerk maintains deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to law, the depository institution should pledge sufficient securities as collateral which, together with FDIC insurance, equals or exceeds the amount on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge of securities should be evidenced by an agreement that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. This agreement, signed by both parties, must be sufficient to create an enforceable and perfected security interest in the collateral under Kentucky law. The County Clerk entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of April 6, 1998, the uncollateralized amount on deposit was \$283,661. The pledged securities and FDIC insurance did not equal or exceed the amount on deposit.

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of April 6, 1998.

	<u>Bank Balance</u>
Collateralized with FICA held by pledging depository institution in the county official's name	\$ 100,000
Uncollateralized and uninsured	<u>283,661</u>
Total	<u><u>\$ 383,661</u></u>

Note 4. Grant

The County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$46,650. The unexpended grant balance was \$3,453 for the prior year. During calendar year 1998, the County Clerk received \$37,099 and expended \$40,542. The unexpended grant balance is \$10 as of December 31, 1998.

MONTGOMERY COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 1998
(Continued)

Note 5. Health Insurance Premiums

KRS 61.405 allows county fee officials to purchase twelve (12) months of health insurance coverage for their employees, if excess fees are available. Therefore, the expenditures are allowable. The Attorney General has issued opinion 92-108, which claims the statute is unconstitutional and discriminatory. The Attorney General also issued OAG 94-11 on February 25, 1994, stating health or medical insurance provided uniquely for an official and not in connection with a government program providing benefits to all county employees would be personal in nature.

MONTGOMERY COUNTY
JUDY LONG WITT, COUNTY CLERK
COMMENT AND RECOMMENDATION

Calendar Year 1998

STATE LAWS AND REGULATIONS:

The County Clerk's Depository Institution Should Have Pledged Securities Of \$283,661 As Collateral To Protect Deposits

The County Clerk's deposits were not adequately secured by \$283,661 as of April 6, 1998. Under provisions of KRS 66.480(1)(d) and KRS 41.240(4), banks are required to provide pledges of securities as collateral for interest-bearing and noninterest-bearing deposits if either exceeds the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation. The County Clerk requested such a pledge and entered into a written agreement with the depository institution. However, the depository institution failed to provide the requested collateral. We recommend that the County Clerk require depository institutions to pledge sufficient securities as collateral to protect deposits at all times.

Management's Response:

I entered into a collateral security agreement with the bank. I asked for a sufficient amount of pledges. I received a letter from the bank on December 30, 1997 confirming \$420,000 was pledged. I was shocked to learn that someone at the bank failed to actually pledge this amount to secure my deposits.

PRIOR YEAR:

None

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Honorable B. D. Wilson, Montgomery County Judge/Executive
Honorable Judy Long Witt, Montgomery County Clerk
Members of the Montgomery County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Montgomery County Clerk as of December 31, 1998, and have issued our report thereon dated October 19, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Montgomery County Clerk's financial statement as of December 31, 1998, is free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Montgomery County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be a material weakness.

Honorable B. D. Wilson, Montgomery County Judge/Executive
Honorable Judy Long Witt, Montgomery County Clerk
Members of the Montgomery County Fiscal Court
Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended for the information of management. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
October 19, 1999

